



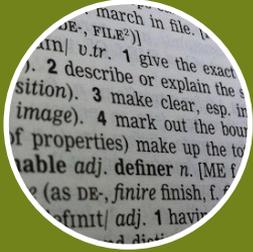
Municipal Debt 101:

The Basics of Bond Issuance

Municipal Debt 101: Today's Topics



Key
Concepts



Terms



Market
Players



Issuance
Process



Capital
Planning &
Tax Impact



Why Wisconsin Governments Borrow

Facilities

- Administrative & operational
- Public safety
- Recreational

Infrastructure

- Streets
- Utility systems
- Sidewalks & trails

Equipment

- Machinery
- Vehicles
- Computers

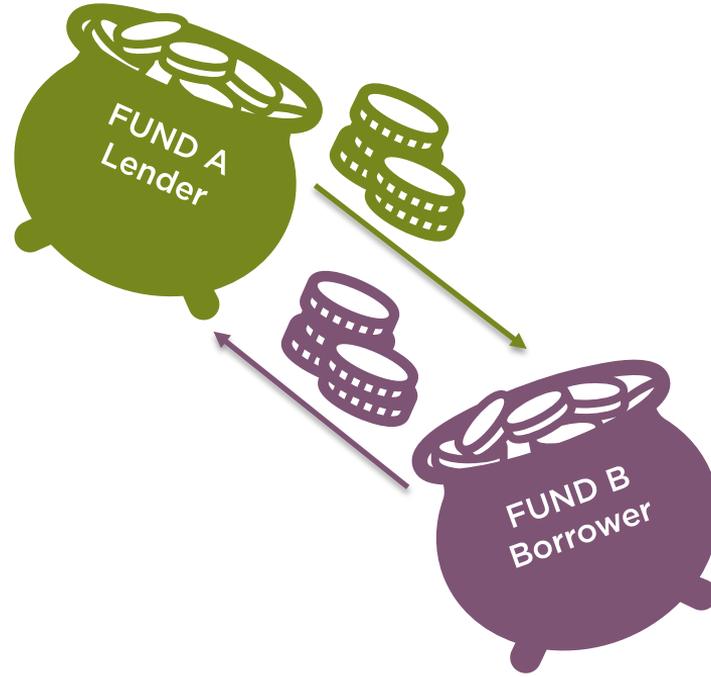
Types of Municipal Capital Financing

- “Pay as you go”
 - ✓ Use existing budget, cash &/or reserves
 - ✓ Efficient for short-lived assets
 - ✓ Sometimes difficult to save enough
 - ✓ Those who “paid” may not benefit



Types of Municipal Capital Financing

- “Internal loans”
 - ✓ One fund lends to another
 - ✓ Both borrowing & lending funds should be treated fairly
 - ✓ Repayment terms should be memorialized
 - ✓ Can create fund balance, cash flow issues



Types of Municipal Capital Financing

- Debt issuance
 - ✓ Preserve existing cash & resources
 - ✓ Cost of asset amortized over useful life
 - ✓ Asset paid for & benefited by users
 - ✓ Manage & stabilize tax rates, user fees
 - ✓ Most debt service exempt from levy limitation



Types of Pledge & Security

- General obligation
- Revenue obligation
- Appropriation pledge



General Obligation (G.O.) Debt

- Total amount outstanding – at any time – limited to 5% of total equalized valuation (Wisc. State Statutes)
- Must be fully retired no later than 20 years from original issue date
- Debt service exempt from municipal levy limits

**G.O. Promissory
Notes**

G.O. Bonds

General Obligation Bonds

Can be issued for up to 20 years from original issue date

Must be issued for authorized purpose under law without prior elector approval

Governing body must adopt initial resolution of intent to issue for specific purpose(s)

May be subject to petition & permissive or “reverse referendum”

Bonds issued for new money purposes carry “public sale” requirement

General Obligation Promissory Notes

Maximum term
increases to 20 years

Can finance any
public purpose; more
flexible than G.O.
bonds

Unlike bonds, notes
carry no referendum
requirement;
mandatory or
permissive

Unlike bonds, notes
don't require public
competitive offering;
method of sale
flexibility

Towns no longer need
to seek elector
approval to issue
debt with more than
10-year term

General Obligation Promissory Notes

Improved administrative simplicity compared to G.O. bonds:

- Don't require multi-page authorizing resolutions
- Eliminate need for 2-step authorization & award resolution process
- Subject to permissive referendum; cities don't need to publish notice to electors to start petition period
- Not limited by "not-to-exceed" amounts by purpose; money can be moved between purposes

Revenue Obligations

- Can be issued to finance **“any revenue producing facility or enterprise owned by a municipality and operated for a public purpose”**
 - ✓ Water, sanitary sewer, electric, nursing home, housing, etc.
 - ✓ Tax increment District (TID) projects
- No dollar limit
- Stated maturity no later than 40 years after original issue date
- Can levy for revenue insufficiency under levy limits

Revenue Obligations, Continued...

- Debt Service Reserve Fund
 - ✓ Accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest
- Debt Coverage Requirement & Additional Bonds Test

Key Terms

Maturity:

- Refers to the date the contract between debt issuer & investor(s) ends
- Debt issuer makes final principal payment

Par:

- The face value or principal amount of debt issued

Key Terms



Coupon: The stated interest rate of debt issued

Can be fixed or variable



Yield: The measure of investor return on debt issued over life of that debt

Yield MAY NOT equal coupon
Dependent on price

Key Terms

Optional Redemption or “Call” Feature:

- The ability for an issuer to pay debt PRIOR to maturity at specified times & prices
- “Par call” = date debt can be paid at face value.

Official Statement:

- Municipal securities offering & disclosure document

Tax Exempt Debt

- Interest paid to debt holders exempt from income tax
 - ✓ Federal & some states (not exempt in Wisconsin)
- Tax-exemption is a privilege
 - ✓ Must comply with federal regulations
 - ✓ U.S. Treasury is the governing body
 - ✓ IRS enforces regulations

Municipal issuers can also issue taxable debt.

Debt Issuance Players

- Who are they?
- What role do they play?
- Who do they represent?
- How do they get paid?

Municipal Advisor

- Advises on financing plan & calendar
- Assists with assembly of financing team
- Recommends structure, size, timing, terms, & method of sale
- Helps prepare offering & disclosure documents
- Represents issuer's interests throughout process
- Maintains fiduciary obligation to issuer
- Typically paid flat fee from issuance proceeds

Bond Counsel

- Provides validity & tax opinions
- Helps support debt authorization under state law
- Prepares legal documentation & agenda language
- Drafts & reviews specific sections of official statement
- Prepares continuing disclosure agreement
- Represents issuer
- Typically paid via flat fee from issuance proceeds

Rating Agency

- Renders **independent** credit assessment of issuer & specific transaction
 - ✓ Better rating = better market access, lower cost of capital
 - ✓ Not all municipal issuers or transactions rated
- Monitors issuer via ongoing surveillance
- Typically paid via fee by issuer from issuance proceeds, but doesn't represent them

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Underwriter

- Purchases bonds & sells to investors
- Represents their own commercial interests that may differ from issuer's
- Adheres to suitability & fair dealing standard, not fiduciary
- Paid by issuer via “underwriter discount”

\$10 Discount = \$10/\$1,000 or 1.00% face value	
\$1,000,000 issue	\$10,000 discount
Underwriter pays \$990,000 for \$1,000,000 in bonds	

Paying/Fiscal Agent

- Bank or trust company that:
 - ✓ Helps issuer complete scheduled payments to bondholders
 - ✓ Disseminates certain notices on issuer's behalf
 - ✓ Acts as issuer's agent with Depository Trust & Clearing Corporation (DTCC)
- If not engaged, issuer must work directly with DTCC
- Paid flat fee at closing & annual fee over life of debt



Issuing Debt: Process & Timing



Planning & Authorization

What	Who
<ul style="list-style-type: none">• Determine amount to borrow• Structure transaction (type, terms, etc.)• Establish timing of debt sale	<ul style="list-style-type: none">• Issuer• Municipal Advisor
<ul style="list-style-type: none">• Obtain legal authorization<ul style="list-style-type: none">✓ Initial authorization & public notice✓ Report or study adoption?• Determine tax-exempt status	<ul style="list-style-type: none">• Issuer• Municipal Advisor• Bond Counsel

Legal Documents & Official Statement

Bond Marketing & Sale: Borrowing Options

Securities Offering:

- Bonds sold in capital markets through underwriter
- Can achieve fixed rates up to 20-years G.O. / 40-years Rev.
- Official Statement serves as offering document

New Issue	Rating Application Made: Moody's Investors Service, Inc.
CITY OF RIVER FALLS, WISCONSIN (Pierce and St. Croix Counties)	
\$6,250,000* GENERAL OBLIGATION CORPORATE PURPOSE BONDS, SERIES 2020A	
BID OPENING: June 9, 2020, 10:00 A.M., C.T.	CONSIDERATION: June 9, 2020, 6:30 P.M., C.T.
PURPOSE/AUTHORITY/SECURITY: The \$6,250,000* General Obligation Corporate Purpose Bonds, Series 2020A (the "Bonds") of the City of River Falls, Wisconsin (the "City"), are authorized pursuant to Section 67.04, Wisconsin Statutes, for the public purposes of paying the cost of a fire engine, constructing a police facility and current refunding certain outstanding general obligations of the City as more fully described herein. The Bonds are general obligations of the City, and all taxable property in the City is subject to the levy of a tax to pay the principal of and interest on the Bonds as they become due which tax may, under current law, be levied without limitation as to rate or amount. Delivery is subject to receipt of an approving legal opinion of Quarles & Brady LLP, Milwaukee, Wisconsin.	

Bond Marketing & Sale: Borrowing Options

Negotiated Underwriting

Issuer works with Municipal Advisor to select underwriter

Effective for unique features, new or challenged credit, difficult market conditions

Competitive Underwriting

Bonds offered through competitive bid

Sale awarded to lowest interest cost proposal

Bond Marketing & Sale: Borrowing Options

Direct Placement:

- Banks & other institutions active lenders to public entities
- No official statement required
- Attractive for smaller issues, unique features
- Bank demand changes over time
 - ✓ Compare “all-in” costs to capital market options



Still must follow process when working with banks!

Bond Marketing & Sale: Borrowing Options

State Trust Fund Loans

- General or revenue obligation options

State Environmental Improvement Fund

- Loan programs for sewer & water projects

USDA Rural Development

- Loan programs for community facilities, sewer & water projects

Bond Sale & Closing

Sale

- Rates & terms are fixed
- Governing body approves final documents
- If securities offering, final Official Statement prepared & distributed

Closing

- Funds delivered to borrower
- Costs of issuance paid to professionals
- Funds invested until needed

Post Issuance Obligations

Arbitrage:

- Tax-exempt securities with a lower interest rate and investing in taxable securities at a higher interest rate
- Yield restrictions and timing of spending proceeds

Continuing Disclosure:

- SEC Rule 15c2-12
 - ✓ Financial & Operating Information
 - ✓ Material Events

Capital Planning & Tax Impact

Identify financing options

- Option 1
- Option 2
- Option 3



Determine impact

- Tax rate
- Debt limit

Understanding the Background – G.O. Debt

- Only allowed 5% of Total EV Outstanding
- Historical view

Year	Equalized	Principal		
Ending	Value (TID IN) ¹	Debt Limit	Outstanding	% of Limit
2019	732,309,800	36,615,490	17,909,219	49%
2020	785,455,400	39,272,770	16,010,684	41%
2021	916,555,900	45,827,795	22,053,326	48%
2022	1,069,281,100	53,464,055	21,297,114	40%
2023	1,182,093,600	59,104,680	19,860,899	34%

Background: Current Debt Structure

Year Ending	Existing Debt							Year Ending
	Total G.O. Debt Payments	Less: TID #6	Net Tax Levy	Change in DS Levy to Prior Year	Equalized Value (TID OUT)	Tax Rate Per \$1,000	Annual Taxes \$300,000 Home	
2025	1,896,205	(309,910)	1,516,440	(28,776)	1,116,472,394	\$1.36	\$407.47	2025
2026	1,906,250	(323,610)	1,512,785	(3,655)	1,203,796,047	\$1.26	\$377.00	2026
2027	1,871,292	(341,968)	1,459,470	(53,316)	1,233,933,044	\$1.18	\$354.83	2027
2028	1,819,417	(345,100)	1,404,461	(55,009)	1,264,824,520	\$1.11	\$333.12	2028
2029	1,470,965	(292,975)	1,043,345	(361,116)	1,296,489,364	\$0.80	\$241.42	2029
2030	1,215,165	(285,675)	781,645	(261,700)	1,328,946,936	\$0.59	\$176.45	2030
2031	1,256,549	(288,055)	821,528	39,883	1,426,652,682	\$0.58	\$172.75	2031
2032	1,250,948	(289,995)	814,960	(6,568)	1,462,368,888	\$0.56	\$167.19	2032
2033	1,234,421	(281,535)	807,963	(6,997)	1,498,979,249	\$0.54	\$161.70	2033

Put the Capital Plan on Paper

Projects	Funding	2025	2026	2027	2028	2029
Hickory Park (Grant Portion)	Grants/Aids					
Jackson Drive (South)	G.O. Debt	125,000				
Glen Brooke Drive	G.O. Debt					140,000
STH 60 (Northside)	Cash					
STH 60 (North side)	Cash					
Chestnut Court - Ridgeway Drive to Dead End	Grants/Aids					
Chestnut Court - Ridgeway Drive to Dead End	Cash					
Chestnut Court - Ridgeway Drive to Dead End	Cash					
Hickory Lane - Forest View Drive to Linden Drive	G.O. Debt	1,433,750				
Hickory Lane - Forest View Drive to Linden Drive (Grant Portion)	G.O. Debt	40,000				
Linden Drive - Hickory Lane to Dead End	G.O. Debt		145,250			
Linden Drive - Hickory Lane to Dead End	Revenue Debt		145,250			
Linden Drive - Hickory Lane to Dead End	Revenue Debt		145,250			

Funding Capital Needs

Sources of Funding	2025	2026	2027	2028	2029
G.O. Debt	3,757,125	4,158,500	1,475,342	847,500	1,241,312
Revenue Debt	0	1,003,000	495,000	1,000,000	469,500
Grants/Aids	0	0	0	0	0
Special Assessment	0	0	0	0	0
Equipment Replacement Fund	0	0	0	0	0
Cash	310,820	514,195	656,715	294,088	416,744
Total	4,067,945	5,675,695	2,627,057	2,141,588	2,127,556

- Why don't we pay with all cash?!
 - ✓ Available funds
 - ✓ Asset life
 - ✓ Generational equity

Impact of CIP on Debt Levy/Taxes

- Structure around existing debt
- New money will cause some fluctuation of levy for debt
- Avoid peaks & valleys in levy changes from prior year

					Year Ending
Debt Service Levy		Taxes			
Total Net Debt Service Levy	Levy Change from Prior Year	Total Tax Rate for Debt Service	Annual Taxes \$300,000 Home	Annual Taxes Difference From Existing	
2,341,508	(803)	\$1.81	\$542	\$300	2025
2,338,745	(2,763)	\$1.76	\$528	\$352	2026
2,334,528	(4,217)	\$1.64	\$491	\$318	2027
2,334,253	(274)	\$1.60	\$479	\$312	2028
2,433,025	98,772	\$1.62	\$487	\$325	2029
2,496,064	63,039	\$1.62	\$487	\$331	2030
2,493,017	(3,047)	\$1.58	\$475	\$323	2031
2,490,121	(2,896)	\$1.54	\$461	\$315	2032
2,488,657	(1,464)	\$1.50	\$449	\$308	2033

Impact of CIP on G.O. Debt Capacity

Proposed Debt			
Combined Principal Existing & Proposed	Statutory Limit (5% EV)		Year Ending
	% of Limit	Residual Capacity	
\$19,860,899	34%	\$39,243,781	2023
\$24,198,587	40%	\$36,420,092	2024
\$26,644,893	43%	\$35,526,567	2025
\$29,398,713	46%	\$34,365,304	2026
\$29,428,171	45%	\$35,969,197	2027
\$28,745,000	43%	\$38,327,558	2028
\$27,130,000	39%	\$41,660,659	2029
\$25,540,000	35%	\$46,953,950	2030
\$23,955,000	32%	\$50,395,923	2031
\$22,330,000	29%	\$53,925,463	2032
\$20,805,000	27%	\$57,403,789	2033

Let's Talk!



Download the Presentation



Your Presenters



Peter Meidal
Municipal Advisor
pmeidal@ehlers-inc.com
651-697-8552



Paul Boening
Senior Financial Specialist
pboening@ehlers-inc.com
262-796-6199

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